

Internationalization of mid-sized firms and global market leadership: an Introduction

Interest in mid-sized firms as contributors to foreign trade and economic resilience goes a long way back (see Bonaccorsi, 1992; Shama, 1993), and this interest has been strengthened in recent times through a growing attention for hidden champion-type firms and the Middle Market as a specific segment amidst the demography of enterprises. This occurred not in the least because of societal concerns with the resilience of Western economies since the outbreak of the financial crisis and the credit crunch around the year 2008. Due to these turbulences, internationalized companies -and particularly those that operate in an export-driven manner- have been considered as important elements to make economies more shock-proof (Dallago *et al.*, 2012).

The above-indicated interest has, however, been uneven when comparing policy and consultancy circles with academic and scientific circles.

On the one hand, policy makers and practitioners have steadily increased their focus on mid-sized firms with a strong (international) market position¹ and on the Middle Market as a pool of companies to which the former firms pertain.² Arguably, this is due to the fact that these firms align well with policies that have a picking winner or a spreading best practices character, and because they help to legitimize smart specialization strategies. Furthermore, companies that act as international niche specialists are attractive role models since they show how firms of a surveyable size manage to diversify their sales across the globe, thus raising their robustness against downturns in particular (national) markets. At the same time, from an economic geography perspective these companies form great assets since they contribute strongly to several economic indicators while the dependence of a region or nation upon them tends to be limited.³

¹ See for instance the latest «Plan de Internacionalización 2017-2020» from the Basque Government and the Koalitionsvertrag between the CDU and the SPD from 2018 in Germany, as well as dedicated policy support programmes in Taiwan and South Korea.

² See for instance studies by GE Capital and Warwick Business School (2013) or Ernst & Young: https://www.ey.com/en_gl/growth-barometer.

³ That is: provided a certain density of these firms can be found in a locality and one considers at least NUTS 2-level localities («regions») and not individual city levels.

On the other hand, publications with a clear focus on these kinds of firms in scientific journals have been very sparse. I.e., when looking at the top 5 journals in International Business (Tüselmann *et al.*, 2016), one observes how in the past 10 years no article has appeared that takes hidden champions or the Middle Market explicitly as its point of departure.

While mid-sized firms leading international markets could serve as very interesting research objects to be analyzed, e.g. regarding their internationalization behavior, their timing of market entry mode decisions and their deployment of first or second mover advantages, the truth is that methodological sound and systematic research to examine the strategic behavior or competitive characteristics of these kinds of firms has yet to live up to its potential. In fact, what may have been holding back a breakthrough in research about the firms in question is the rather sketchy operationalization of what they stand for. This is probably not so much a problem with Middle Market firms, where the discussion may simply be about the upper and lower threshold in terms of annual turnover of the firms considered. But it certainly can be a problem for research around hidden champions, where there are quite a lot of definitional loose ends. Hence the ambition of this *Ekonomiaz* edition to sharpen the terminology and operationalization of the research objects in question, while referring to them as, e.g. international or global niche market leaders.

Structuring the respective contributions

The present edition of *Ekonomiaz* consists of two parts. The first part is formed by topical contributions to the issue of *Internationalization of mid-sized firms and global market leadership*. The second part consists of regular articles that touch upon other topics.

Topical contributions

Specifically, the present edition of *Ekonomiaz* provides a baseline of research on internationalization and market leadership questions around mid-sized firms through a collection of articles that analyze their distinctive features (**Georg Jungwirth** and **David König**, 2019) and *modus operandi* (**John Bessant**, 2019), address some of the contemporary challenges they face (**Bernd Venohr** and **Bart Kamp**, 2019), and look at implications for policy making and business strategy (**Rudy Aernoudt**, 2019; **Gert-Jan Hospers**, 2019; **Jerker Johnson**, **Johanna Dahl** and **Åge Mariussen**, 2019; **Josu Ugarte**, 2019).

In parallel, several of the articles in this *Ekonomiaz* edition push the methodological and operationalization envelope on research around the companies in question (**Christian Rammer** and **Alfred Spielkamp**, 2019; **Venohr** and **Kamp**, 2019), whilst it also includes articles that provide accounts of the number of International Niche Market Leaders (INMLs) or hidden champions that exist in specific economies across Europe (**Rammer** and **Spielkamp**, 2019; **Kamp**, 2019).

Similarly, the contributions can be divided into articles that adopt a national focus to the subject at hand (**Rammer** and **Spielkamp**, 2019; **Jungwirth** and **König**, 2019), and articles that include a regional angle to their analyses (e.g. **Hospers**, 2019; **Johnson et al.**, 2019; **Kamp**, 2019). The latter thus also link to discussions on sub-national cultural specificities or intra-country cultural diversity (**Beugelsdijk et al.**, 2017). In addition, the contributions of **Aernoudt** (2019), **Hospers** (2019), **Johnson et al.** (2019) and **Kamp** (2019) look into distribution patterns of high performance mid-sized enterprises across territories in function of specific spatio-economic features (industrial activity, company size, access to funding), policy support measures and systems of capitalism. By doing so, they provide insights into questions on the company types that one can encounter in respective economies (in line with works of **Audretsch et al.**, 2018; **Bleuel**, 2018; **Lehmann et al.**, 2018).

Regular contributions

Under this header, we encounter two articles. The first, by **Noemí Angulo** and **Amaya Angulo**, describes the current system of the assignation of the competent body on conflict resolution issues between the National Competition Authority and the regional authorities. These conflicts arise because of breaches in the Spanish State Law on Competition.

The second one by **Xavier Labandeira**, **Alberto Gago**, **Xiral López** and **José M^a Labeaga** analyzes the possibilities of reforming energy-environmental taxation in Spain as part of a wider strategy of climate change mitigation. After studying the theoretical context of these taxes in a federal framework and some relevant international experiences, the paper evaluates the utility and feasibility of these taxes in subnational jurisdictions. In Spain, the current situation of these taxes is characterized by the disinterest of the central government and the lack of coordination of regional initiatives.

Anthological highlights from the topical contributions

The remaining three sections are dedicated to outlining: a) Distinctions between *Mittelstand* and Middle Market, b) Challenges for mid-sized firms in international markets; and c) Policy recommendations and research suggestions, which follow from the topical contributions

Mittelstand and Middle Market

A concept that is often associated with hidden champions, is the so-called *Mittelstand*. Contrary to what the available literature on hidden champions from German-speaking territories (e.g. **Simon**, 2012; **Audretsch et al.**, 2018; **Bleuel**, 2018) insinuates, the publications by **Bessant** (2019), **Hospers** (2019) and **Kamp** (2019) provide evidence of the presence of this company type outside the Germanic business world. Moreover, they call into question the umbilical cord between hidden

champions or INMLs and the *Mittelstand* concept. That is, especially if one interprets *Mittelstand* from a wider angle than just a size perspective. For instance, several of the company cases reviewed in the present *Ekonomiaz* edition show that hidden champions/INMLs do not have to abide to the «rule» of non-separation of ownership and management at these firms nor do they need to have a family business background.

As several of the contributions refer to the Middle Market (notably Ugarte, 2019; and Kamp, 2019) as a framework for company size demarcation, while others refer to *Mittelstand* (notably Rammer and Spielkamp, 2019; and Hospers, 2019), it may be indicated to juxtapose the two concepts on headlines.

Table 1. **MITTELSTAND AND MIDDLE MARKET IN TERMS OF COMPANY SIZE**

	<i>Mittelstand</i>	Middle Market
Upper end	Between 250-3000 employees and/or 50-250 million euros	100 million euros-1 billion euros
Middle segment	Between 10-250 employees and/or 2-50 million euros	50-100 million euros
Lower end	Below 10 employees and/or 2 million euros	20-50 million euros

Source: compiled by the author and based on Röhl (2017, 2018), National Center for the Middle Market (2011) and GE Capital and Warwick Business School (2013).

Table 2. **MITTELSTAND AND MIDDLE MARKET IN TERMS OF GOVERNANCE ARRANGEMENTS**

	<i>Mittelstand</i>	Middle Market
(Non-)separation between ownership and management	Non-separation	Is not a distinctive feature; neutral on this aspect
Family business	The norm	Is not a distinctive feature; neutral on this aspect

Source: own elaboration based on literature review.

Challenges for mid-sized firms in international markets

While the focus mentality (Kormann, 2005), marketing of high value brands (Georges, 2017), dynamic innovation capabilities (Bessant, 2018) and a broad internationalization posture (Simon, 2012) function very well for the mid-sized firms

that the present edition of *Ekonomiaz* has scrutinized; they also face challenges. Below we point out some of them:

- *Finance*: The firms in question typically seek high return-on-equity while maintaining low debt-to-equity ratios (Brenes *et al.*, 2017) and this is an important explanatory factor behind their sustainable growth trajectories. However, it could hamper their ability to manage more rapid forms of expansion (including non-organic growth) if that would be needed to remain a leading player in a fast-growing market (see Ugarte, 2019; Venohr and Kamp, 2019; or Aernoudt, 2019). If such growth circumstances occur, it may generate a need to consider alternative forms of growth financing.
- *Insidership*: Sustained commercial success on unlocking offshore markets, particularly in emerging economies, may require a stronger on-site presence than merely having sales capacity in place. In fact, it may imply the need for a stronger physical presence in the form of production and R&D activities, thus developing «insiderisation» in such growth markets (see Venohr and Kamp, 2019).
- *Digital transformation and uptake of Industry 4.0*: Just like industry at large, the firms under consideration need to get to grips with the fourth industrial revolution (Freimark *et al.*, 2018). Particularly Ugarte (2019) and Hospers (2019) stress the importance of this issue for sustained competitiveness of industrial firms in developed economies. While the incorporation of new technologies is important, at the same time one must avoid becoming prey to «technology myopia». As Rammer and Spielkamp (2019) as well as Bessant (2019) point out; to leverage technology for business success; management of innovation and technological capabilities is of great importance. Consequently, return-on-innovation is not just a matter of investing in technology. In addition, since getting to grips with Industry 4.0 and the like will often be an inter-organizational affair, it is indicated to ensure that also surrounding (value chain) parties attain Industry 4.0 readiness levels. Hence the relevance of adopting a network approach to and employing public-private partnerships for such assignments (see Hospers, 2019; as well as Johnson *et al.*, 2019).
- *Servitization*: The product and industrial mentality that predominates in many of the firms under examination may obstruct them on their way to developing their service business and to articulate a service-oriented mentality. In parallel, the specialty character of many products and goods that niche players provide can diminish the centrality that these items play in the value creation processes of their clientele and hence reduce these firms' airplay for providing integrated solutions to their customers (Kamp, 2018).
- *Talent recruitment and development*: In this regard there are two strands to be distinguished. On the one hand, there is the importance of incorporating foreign talent for global business success (as indicated by Ugarte, as well as Ve-

nohr and Kamp, 2019). On the other hand, there is the issue of cooperating locally with training and education centers (as highlighted by Hospers, 2019) and of investing in human resources (Rammer and Spielkamp, 2019). Altogether this becomes then a matter of competences to orchestrate local buzz and global pipelines. Particularly to support the local dimension and the preparation of local talent, public-private partnerships can be useful as well (see Hospers, 2019; as well as Johnson *et al.*, 2019).

Policy recommendations and research suggestions

In the light of the challenges that mid-sized firms face in their quest for internationalization and global market leadership, the following implications for policy support and future research can be envisaged:

- *Segment private enterprises into more meaningful categories:* the conventional way of classifying companies is through their number of employees and to distinguish between micro enterprises (fewer than 10 employees), small enterprises (10 to 49 employees), medium-sized enterprises (50 to 249 employees), or large enterprises that employ 250 or more people. However, for the sake of fostering foreign trade and international business, this may not be the most adequate categorization. To start with, among those firms that fall under the large enterprise category, there may be companies that are owner-operated with strong local roots (as opposed to globally dispersed multinationals) and thus behave like embedded mid-sized firms. Moreover, rather than focusing on the size of companies, it may be more relevant to look at the size and character of the markets that companies address (whether it is a niche or large volume market, and whether it concerns a fringe or mainstream market), the international business posture they adopt (e.g. the share of international sales vis-à-vis total turnover and whether these sales are chiefly export-driven, fruit of Foreign Direct Investment, or supported by Joint Ventures and Alliances with foreign partners), and the status of firms in the respective markets they address in function of their market share (leader, contender, also-runner...). The segmentation in function of the international business development stage of companies as followed in the Plan de Internacionalización del País Vasco 2017-2020 (see p. 9)⁴ serves as an interesting point of reference in this regard.
- *Grow the pool of internationally leading mid-sized firms:* localities that have a set of INMLs should work on expanding and/or renewing this basis. On the one hand, this implies helping INMLs to remain a vanguard actor in the markets they address. On the other hand, it implies scouting runner-up

⁴ https://www.spri.eus/archivos/2018/02/pdf/Plan_Internacionalizacion_2017-2020_Pais_Vasco_Final.pdf

firms with the potential to convert themselves into leaders in international niche markets and pointing out ways to attain market leadership. To that end, a system of good practice transfer or peer reviewing among INMLs, and between established INMLs and runner-up firms can be foreseen. Eventually, such twinning mechanisms can be governed by a body that ensures that the exercises undertaken adhere to specific quality standards. Similarly; such a body can also be made responsible for issuing specific certifications (cfr. a kind of «consejo regulador» that can warrant and grant, for instance, a «DOC» label: «Denominación de Campeón Oculto»). Similar godfathering and mentoring schemes can also be instituted between localities that do and localities that do not shelter a considerable pool of INMLs, in order for the latter to learn from the former.

- *Interact with and learn from INMLs*: e.g. with regard to the mechanisms they deploy to conquer and prolong market leadership. Insights to be obtained from such interactions can serve to learn about their offensive and defensive maneuvers with regard to conquering market leadership, and to address questions like: how do they detect market opportunities, position themselves successfully and timely in (niche) markets and consolidate their success in them? The subsequent findings can both serve to strengthen the competitiveness mechanisms of the proper INMLs, and to prepare the ground for others to act accordingly. Studying such competitiveness enhancing behavior can also serve as an input to the design of programmes in support of strategic innovation behavior.
- *Facilitate access to funding*: while there will be mid-sized firms that prefer to finance growth by means of own resources, there can be others that decide to recur to external capital providers to pursue their growth path. Whilst getting sufficient back-up from local sources is not always possible, the public sector can resolve this network failure by creating conduits with alternative financiers and/or by providing guarantee schemes or mezzanine financing instruments.⁵
- *Foster ties between mid-sized firms and non-conventional financial service providers*: both in view of financing servitization operations and general company development/growth, companies typically require external capital. Whenever those business model and growth operations have a hors catégorie or novel character, conventional financial entities may not be up for the task. Hence it is deemed interesting to help firms to broaden their finance mix and orient themselves towards fintech companies and industrial asset management firms. To draw a parallel with a current initiative in the Basque Cou-

⁵ Instruments that allow access to external non-banking finance, without losing company ownership.

ntry: in the same manner that the BIND 4.0⁶ programme sets out to build bridges between consolidated industrial companies and start-ups, it may be indicated to get industrial firms, especially long-established ones, acquainted with last generation financial entities.

- *Assist internationalized and internationalizing mid-sized companies with developing market and competitive intelligence in places with lead market potential:* in the current context of globalization and sophistication of emerging economies; finding and exploiting an international niche market may become more and more a question of clever nesting behavior abroad. Hence it is important to endow mid-sized firms with intelligence systems that are (big) data intensive and up-to-date with the smart and semantic capacities of our time. Similarly, it makes sense to provide specific support them when they consider applying high equity entry modes (e.g. for production and R&D activities) as a means to foster insidership in such markets. Additionally, it is deemed appropriate to help them to nurture soft skills to operate smoothly in such places and raise their chances to become pivotal players in value chains directed by foreign enterprises, enabling them also to act as way-pavers for others to piggy-back on their success.
- *Mentalize mid-sized firms for doing business with companies from emerging economies abroad and at home:* while they may be accustomed to doing business with foreign counterparts in situ, the idea of doing business with emerging economy multinationals in their home market or continent may be counter-intuitive. However, present day multinationals from Latin American countries and from large Asian economies may choose to expand their international business via Foreign Direct Investment and take-overs of Western companies instead of following an export-driven path. In this sense their modus operandi may be different from the (home-grown) Leitmotiv that Japanese and South Korean conglomerates typically follow.
- *Incentivize industrial mid-sized firms to embrace the Industry 4.0 concept in a full-fledged manner:* eventually, the fourth industrial revolution will not be limited to intra-plant or intra-company connectivity, but will also lead to plant-to-plant and value-chain wide process management. Additionally, it will lead companies to apply digital transformation not only to the manufacturing realm, but also to the way they manage customer relationships and market interactions overall. In view of sustained competitiveness, mid-sized firms should be stimulated to follow both paths.

⁶ Aid programme by the Basque Government to boost the digital transformation of large companies through collaboration with start-ups, the acceleration of these entrepreneurs and the attraction of international talent. Its name comes from a play on words with the initial letters of the Basque Industry Digitalization of Basque industry strategy, and from the English verb to bind, which aims to unite leading companies and start-ups.

- *Take servitization up as an integral part of industrial policy making:* fostering a service-dominant logic among manufacturing firms is important for competitiveness in tomorrow's industrial market places. Adopting a service mindset is not only an issue for private enterprises, but also an assignment for policy makers. Particularly for those concerned with industrial policies it is important to come up with holistic approaches that view services and servitization as part of the industrial competitiveness equation, and not as something that is exogenous to the business context of manufacturing firms.
- *Multinationalize the talent pool and employee base from which mid-sized firms build their competitiveness upon:* when operating in markets that globalize increasingly or in sectors where foreign countries act as lead markets, it is vital to count with multinational labor forces. The former is also essential in view of developing insidership on foreign markets. Consequently, it is deemed of interest to encourage mid-sized firms that operate internationally to recruit and assemble teams with diverse national backgrounds. Similarly, universities and other high education institutions as well as research and technology centers in places with strong concentrations of internationalized mid-sized firms should multinationalize their lecturing and researching staff. As far as higher education centers are concerned, it is also worthwhile that they offer (part of their) training programmes in one or more *linguae francae* and canvas their programmes towards students from emerging economies.

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